NOTES ON NATIONAL FOOD BRAND
RAILWAY SHIPPING POLICIES

Northwest Territories
Legislative Assembly
Standing Committee on Finance

Researcher: Helen Balanoff
Date: October 19, 1981

Issue

Determine which national brand companies operate a policy of shipping their products to the end of the rail line for the same cost as to the beginning of the rail line.

Method

The following companies were contacted by telephone and asked about their pricing policies - the questions are attached in Appendix A.

1. General Foods
2. Nestle's Enterprises Ltd.
3. Thomas J. Lipton Ltd.
4. Kraft Limited
5. Kellog's Salada
6. Catelli Ltd.
7. H.J. Heinz Ltd.
8. Campbell Soup Co. Ltd.
9. Carnation Ltd.
10. Quaker Oats Co. of Canada
11. Robin Hood Multi-foods
12. Canada Packers

Information concerning warehouse costs were supplied by the Government of the N.W.T., Department of Public Works.

The Policies

Companies fall into 3 main categories:

1. Those companies which operate a national pricing policy and will ship their products to the end of the rail line for the same cost per case as to customers anywhere else in Canada. i.e. the manufacturers pre-pay the freight costs to the end of the line.

2. Companies which operate pricing zones i.e. customers pay rates according to where they live. Generally, these companies have a national pricing policy for Southern Canada i.e. all customers in Southern Canada pay the same cost per case, but in the case of remote areas, some cost is added on for freight. A freight forwarding allowance is then given to the distributors for shipment north. (In the case of Carnation $1-3 per cwt.)

3. Companies who have not done this before, but who might be persuaded to, following more discussion and the provision of more details.

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COMPANY	PRE-PAID FREIGHT TO HEAD OF RAIL LINE	FROM	ORDERING & DELIVERY		
General Foods	-	1. Lethbridge to Hay River 2. Winnipeg to Churchill	2 weeks	1% - 10 days Net - 30 days	1 car load* (150 cases of each product)
Nestle's	-	Eastern Canada	Because of large volume, depends on availability of product - May be delay.	1% - 10 days Net - 30 days	1 car load
Kraft	-	Montreal	2-3 Weeks at least	Full payment 7 days after arrival of Merchandise.	45,000 Lbs.
Kellog's Salada	-	London, Ontario	About 2 weeks	1% - 10 days Net - 30 days	1 car load
Catelli	-	Depends on product eg. Flour from Medicine Hat to Hay River. From Winnipeg to Churchill.	Depends on Origin -- Allow 2 weeks	1% - 10 days Net - 30 days	19,000 Lbs.
Lipton's	-	Eastern Canada	About 2 weeks	1% - 10 days Net - 30 days	1 car load
Heinz	Possibly				
Campbell's Soup	X				
Carnation	X				
Robin Hood Multifoods	X				
Canada Packers	X				
Quaker Oats	X				

*1. Car loads can be mixed loads of the manufacturer's product.
2. Car load is 60,000 Lbs. to Hay River - Ranges in size from 3,200 - 5,000 c. ft
40,000 Lbs. to Churchill

SPECIAL CONDITIONS

neral Foods

ne

stle's

o divisions of Nestle's: Libby's and Nestle's. Nestle's pre-pays eight. Libby's has zone pricing.

aft

cause of nature of many Kraft products, the company is selective in s customers. They must be convinced customer has adequate storage. nerally they deal only with established wholesalers, but would be epared to pre-pay freight for customer who regularly buys large volume. ice includes delivery to warehouse. i.e. Off-loading freight car.

llog's Salada

the moment, they sell only to Bona Fide wholesalers, therefore role the Government would have to be established.

atelli

ell only to registered customers. Government would have to be egistered.

ipton's

ny purchaser can buy in volume but name must be submitted for credit pproval.

einz

hey don't do it at present, but IF it was a full car load, they would e prepared to consider it. They would do it only through a Government gency. Details would have to worked out.

ampbell's Soup

one pricing but N.W.T. is same pricing zone as Alberta.

arnation

ational pricing policy which includes Maritimes, but excludes remote egions. e.g. N.W.T., Newfoundland, N. Manitoba, N. Saskatchewan. However, a freight forwarding allowance of $1-3 per cwt. is made to istributors to ship to northern areas.

Robin Hood Multifoods

Pricing zones and freight forwarding allowances.

Canada Packers

Pricing zones.

Quaker Oats

Pricing Zones - North of Peace River, Alberta, freight must be paid.

The following companies do have a national pricing policy and will pre-pay the freight on their products to the head of the rail line - given certain conditions: (See following tables)

- General Foods
- Nestle's Enterprises Ltd.
- Thomas J. Lipton Ltd.
- Kraft Ltd.
- Catelli Ltd.
- Kellog's Salada

The following companies may be persuaded to:

- H.J. Heinz Co. Ltd.
- Campbell's Soup Co. Ltd.

The range of food which would then be available under this arrangement is listed in Appendix B. (This is a provisional list only - comprehensive lists are being sent from the national brand companies.)

Transportation Costs:

At present, most of the canned and dried food destined for settlements in the Mackenzie Valley, Western Arctic and Arctic Coast regions, is purchased by retailers from distributors in Edmonton. The food is then trucked from Edmonton to the NTCL barge terminal at Hay River where it is palletised and wrapped prior to shipment. The retail outlets (and ultimately, the consumer) bear these costs.

From the Western Hudson Bay and Keewatin Area, the food shipment originates from Winnipeg, travels by rail from Winnipeg to Churchill and then proceeds to the final destination by NTCL.

The present freight costs are as follows:

1. From Winnipeg to Churchill

(by C.N. with a minimum shipping weight of 24,000 lbs.)

$4.56 per cwt. (112 lbs)
= $0.04 per lb.

2. From Edmonton to Hay River: (Two prices are available depending upon the weight being shipped).

(by Grimshaw Trucking or Hay River Truck Lines)

a) 1500 - 10,000 lbs. ----- $10.55 per cwt.
+ 5.26% fuel surcharge
= $0.11 per lb.

b) 10,000 lbs. + ----- $9.23 per cwt.
+ 5.26% fuel surcharge
= $0.09 per lb.

The following companies do have a national catalogue [illegible] will accept [illegible] their products [illegible] [illegible] (see following pages)

- General Foods
- [illegible] Enterprises Ltd.
- [illegible] J. [illegible] Ltd.
- Kraft Ltd.
- Catelli Ltd.
- Kellogg Salada

The following companies may be persuaded:

- H.J. Heinz Co. Ltd.
- Campbell's Soup Co. Ltd.

The range of food which would then be available under this arrangement is listed in Appendix B. (This is a provisional list only - comprehensive lists are being sent from the national brand companies.)

Transportation Costs:

At present, most of the canned and dried food destined for settlements in the Mackenzie Valley, Western Arctic and Arctic Coast regions, is purchased by retailers from distributors in Edmonton. The food is then trucked from Edmonton to the NTCL terminal at Hay River where it is palletized and stored prior to shipment. (An retail outlets [illegible] [illegible] [illegible]).

From the Western Hudson Bay and Keewatin Area, the food shipment originates from Winnipeg, travels by rail from Winnipeg to Churchill and then is taken to the final destination by NTCL.

The present freight costs are as follows:

1. From Winnipeg to Churchill

(by C.N. with a minimum shipping weight of 24,000 lbs.)

$[illegible] per cwt. ([illegible] lbs)
= $[illegible] per lb.

2. From Edmonton to Hay River: (Two prices are available depending upon weight being shipped).

(by Grimshaw Trucking or Hay River Truck Lines)

a) 1501 - 10,000 lbs. + ----- $10.[illegible] per cwt.
+ [illegible]% fuel surcharge
= $.1[illegible] per lb.

b) 10,000 lbs. + ----- $[illegible] per cwt.
+ [illegible]% fuel surcharge

In both cases, the larger the volume, the lower the rates.

If larger volumes of food were purchased direct from the manufacturer, provision would have to be made at the rail terminal for off-loading, storage and distribution. This would mean constructing and operating a warehouse specially for this purpose.

Current Warehouse Costs:

The costs which have to be considered are:

1. Capital Expenditure for the Warehouse

Cost of construction of warehousing facilities at Hay River (1982 prices).

12,000 sq. feet. (Assuming land is free) - approximately $1,020,000.

(Details from Architectural Division, D.P.W.)

2. Operation and Maintenance Costs

(based on Liquor Commission warehouse in Yellowknife)

Per Year	
Fuel Costs	10,771.18
Power Costs	13,203.17
Water	985.40
Total Costs	24,959.75

Size of warehouse: approximately 29,000 sq. ft.
-cost per sq. ft. - $0.86 per sq. ft.

These figures do not include:

- Maintenance and depreciation
- Insurance
- Office materials (including telephone)
- Vehicles or transportation costs from rail terminal to warehouse.

Note: Power costs in Hay River are approximately 9.6% higher than Yellowknife.
Fuel costs in Hay River are approximately 3.6% lower than Yellowknife.
Fuel and power prices are expected to increase soon.

(Details from D.P.W. Maintenance Section, Yellowknife)

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3. Warehouse Personnel

(based on requirements at Liquor Commission warehouse)

6 full time employees: Supervisor, warehousman, shipper/receiver, purchaser, 2 clerks.

$121,207

This does not include costing for:

- Employee benefits
- Housing requirements for staff
- Administrative staff to implement the scheme
- Employees (probably casual) for off-loading at rail terminal

Note: Salaries are presently under review and will probably increase.

(Details from Pay Research, G.N.W.T.)

4. The percentage allowance for loss or damage

The percentage allowance for loss or damage on sea-lift operations at present, ranges from 3% to 10% of the total costs. For rail freight shipped direct from the manufacturers to the railway terminal, the percentage loss would probably be nearer the lower end of the scale.

(Details from NTCL)

5. Initial purchasing price of the inventory

This cannot be accruately determined without more specific details of the composition of the order. eg. if purchasing from Catelli, 1 car load can consist of flour, macaroni, spaghetti, meat sauce, etc.

- total cost of the carload would equal the total cost of individual case lots.

However, using flour as a model, initial outlay would be high.

- rough estimate of the amount of flour used in the N.W.T. in 1 year = 1,375,716 kg. (based on quantities brought into 3 settlements and then averaged for the N.W.T.) The 3 settlements were Cambridge Bay, Tuktoyaktuk and Baker Lake. Each store was asked how much flour they brought into the community in the 1981 sea-lift. This was divided by the number of people in the settlement using the N.W.T. Data Book and then worked out for the total population of the N.W.T.

Cost of 25 kg. of flour (best price offered from Catelli - not necessarily the price which would be offered) = $20.55.

- total cost for N.W.T. use = $1,130,838
- outlay to purchase flour alone would be over $1 million.

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Additional factors affecting the issue

- Because interest rates are high, the finance charges on the initial outlay would be high, and would have to be considered in the overall costs of the operation.

  (It should be noted here that the initial outlay costs would be recouped from retailers at a later date.)

- Considerable time would be required for the organization of orders. Present sea-lift orders are prepared at least 2 to 3 months before shipment. Would, then, the warehousing facilities be in use all year round?

- Because not all companies operate this scheme, there would be a limited selection of food available. eg. none of the companies supplied dried or canned milk.

- Method of distributing food to the retailers would have to be worked out. In other words, retailers would have to be persuaded that it was beneficial (from a cost point of view and a good will point of view) to switch to another distributor.

- If retailers receive cost benefits from this method, how would it be determined that these savings were being passed on to the consumer?

Conclusion:

Excluding capital costs, food costs would probably be lower if the products were bought direct from a manufacturer who operates the policy of pre-paid freight to the end of the rail line, but some points emerged for further consideration.

APPENDIX A

Questions which companies were asked regarding pricing policies

1. Do you operate a national pricing policy whereby products shipped to the end of the rail line are the same cost per case as at the beginning of the line?

- If not, what is the company pricing policy?

If the company did operate a national pricing policy, they were then asked:

- What arrangements must be made to take advantage of this policy?
- Is there a minimum weight?
- Is there a time delay between ordering and shipping?
- Where are the products shipped from?
- What products are available from your company?

APPENDIX C

Companies contacted/dates/person spoken to:

Quaker Oats Co. of Canada, Peterborough, Ontario; October 20, 1981
- Dot Jackson

Campbell Soup Co. Ltd., Toronto, Ontario; October 20, 1981
- Sales Department

General Foods, Toronto, Ontario; October 15, 1981
- Roy Barnes, National Sales Manager

Nestle's Enterprises Ltd., Don Mills, Ontario; October 15, 1981
- Mr. Camalli, Traffic Department (also spoke for Libby's)

Kraft Limited, Montreal, Quebec; October 21, 1981
- Mr. George Brand, Public Relations and Policies.

Thomas J. Lipton Ltd., Toronto, Ontario; October 21, 1981
- Dalton Hawkers, Traffic Department

Kellog's Salada, Vancouver, B.C.; October 22, 1981
- Bob Welch, Division Manager

Catelli Ltd., Montreal, Quebec, October 20, 1981
- Distribution Office

H.J. Heinz Co. Ltd., Leanington, Ontario; October 29, 1981
- Mr. Snider, Traffic Department

Carnation Inc., Toronto, Ontario; October 16, 1981
- John Bazar, Sales Office

Robin Hoods Multifood Ltd., Willowdale, Ontario; October 14, 1981
- Sales Office

Canada Packers Inc., Toronto, Ontario; October 14, 1981
- Sales Department

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